Risk Management

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- Risk management is divided into 2 core principles, money management & trade management.
- Risk management is the only shield against ultimate failure.
- If you want to last in this business, I would highly recommend that you keep your overall risk to no more than 0.5% - 1.5% of your total account value.
- If you believe you're really strong technically, you may want to go to 2%, but that is the absolute maximum per trade.
- The reason for the small risk is because you absolutely **must** plan on having losses, even strings of losses.
- This should be the most you allow yourself to lose on any one day as well.
- For multiple positions, cumulative risk should not exceed the above numbers.
- You **do not** have to trade much to make a lot.
- 5 losing trades in a row is **inevitable**.

	Scenario A 1.5% per trade	Scenario B 5.0% per trade
Equity - start	$10,000	$10,000
Losing Trade #1	$9,850	$9,500
Losing Trade #2	$9,702	$9,025
Losing Trade #3	$9,557	$8,574
Losing Trade #4	$9,413	$8,145
Losing Trade #5	$9,272	$7,738
Cumulative Loss - $	($728)	($2,262)
Cumulative Loss - %	-7.3%	-22.6%
% Recapture to B/E	7.8%	29.2%

- Focus on trades that will pay you at least 3 times the amount you risk or more. 2:1 reward/risk ratio is acceptable as well.

Combinations of Win/Loss Over 10 Trades with A 1:1 Reward/Risk Target

# Wins	# Losses	Win Rate	Pips Won	Pips Lost	Net Pips	Avg. Net	
10	0	100%	200	0	200	20	
9	1	90%	180	(20)	160	16	
8	2	80%	160	(40)	120	12	
7	3	70%	140	(60)	80	8	
6	4	60%	120	(80)	40	4	Breakeven range
5	5	50%	100	(100)	0	0	
4	6	40%	80	(120)	(40)	(4)	
3	7	30%	60	(140)	(80)	(8)	
2	8	20%	40	(160)	(120)	(12)	
1	9	10%	20	(180)	(160)	(16)	
0	10	0%	0	(200)	(200)	(20)	

*Reward/Risk assuming average profit of 20 pips and average stop of 20 pips

Combinations of Win/Loss Over 10 Trades with A 3:1 Reward/Risk Target*

# Wins	# Losses	Win Rate	Pips Won	Pips Lost	Net Pips	Avg. Net
10	0	100%	1000	0	1000	100
9	1	90%	900	(30)	870	87
8	2	80%	800	(60)	740	74
7	3	70%	700	(90)	610	61
6	4	60%	600	(120)	480	48
5	5	50%	500	(150)	350	35
4	6	40%	400	(180)	220	22
3	7	30%	300	(210)	90	9
2	8	20%	200	(240)	(40)	(4)
1	9	10%	100	(270)	(170)	(17)
0	10	0%	0	(300)	(300)	(30)

Breakeven range (rows 3 and 2)

*Reward/Risk assuming average profit of 100 pips and average stop of 30 pips

- Ideally stops should be 10-20 pips above or below the nearest key S/R level respectively.
- Swing lows on a 15 minute chart with trailing stops 10-20 pips under it would be an example of a long position utilizing this method.
- We are always looking for opportunities to reduce and or eliminate risk in every trade we execute.
- If we are net long we should look to move our stop up to breakeven as soon as possible **and still be within proper trade management rules**.
- We look at every trade in 2 portions, the first portion takes partial profits at 30 or more pips and the remaining portion is held to the ultimate profit objective.
- Never move your stop loss away from entry points.
- Avoid auto-trailing stops, electing for manual ones.
- A swing point is a simple 5 bar [candle] formation.
- A swing high is any bar with 2 lower highs on both sides of it.
- A swing low is any bar with 2 higher lows on both sides of it.
- These swing points can offer reference points for stop loss placement and the stepping stone to identifying key S/R areas, market flow, and market structure.



- There is such an opportunity for you to make an incredible living and potential fortune in trading that it's foolish not to respect the gravestones all around us from the losers and poor souls that couldn't get a grip on themselves and their trading.
- The next illustration shows what only a net gain of 60 pips per week can produce and never risking more than 2% of total equity and risking only 20 pips per trade (24% monthly).

		Monthly Equity	Monthly Goal 24.0%	$ Risk Per Trade 2.0%	$ Per Pip 20 Pip Stop	Monthly Pip Goal	Weekly Pip Goal	Daily Pip Goal	3x Basis
#1	January 2011	$2,500.00	$600.00	$50.00	$3	240	60	12	20
#2	February 2011	$3,100.00	$744.00	$62.00	$3	240	60	12	20
#3	March 2011	$3,844.00	$922.56	$76.88	$4	240	60	12	20
#4	April 2011	$4,766.56	$1,143.97	$95.33	$5	240	60	12	20
#5	May 2011	$5,910.53	$1,418.53	$118.21	$6	240	60	12	20
#6	June 2011	$7,329.06	$1,758.98	$146.58	$7	240	60	12	20
#7	July 2011	$9,088.04	$2,181.13	$181.76	$9	240	60	12	20
#8	August 2011	$11,269.17	$2,704.60	$225.38	$11	240	60	12	20
#9	September 2011	$13,973.77	$3,353.70	$279.48	$14	240	60	12	20
#10	October 2011	$17,327.47	$4,158.59	$346.55	$17	240	60	12	20
#11	November 2011	$21,486.06	$5,156.66	$429.72	$21	240	60	12	20
#12	December 2011	$26,642.72	$6,394.25	$532.85	$27	240	60	12	20
#13	January 2012	$33,036.97	$7,928.87	$660.74	$33	240	60	12	20
#14	February 2012	$40,965.84	$9,831.80	$819.32	$41	240	60	12	20
#15	March 2012	$50,797.65	$12,191.44	$1,015.95	$51	240	60	12	20
#16	April 2012	$62,989.08	$15,117.38	$1,259.78	$63	240	60	12	20
#17	May 2012	$78,106.46	$18,745.55	$1,562.13	$78	240	60	12	20
#18	June 2012	$96,852.01	$23,244.48	$1,937.04	$97	240	60	12	20
#19	July 2012	$120,096.50	$28,823.16	$2,401.93	$120	240	60	12	20
#20	August 2012	$148,919.66	$35,740.72	$2,978.39	$149	240	60	12	20
#21	September 2012	$184,660.37	$44,318.49	$3,693.21	$185	240	60	12	20
#22	October 2012	$228,978.86	$54,954.93	$4,579.58	$229	240	60	12	20
#23	November 2012	$283,933.79	$68,144.11	$5,678.68	$284	240	60	12	20
#24	December 2012	$352,077.90	$84,498.70	$7,041.56	$352	240	60	12	20

- You can make all the money you'd ever need or desire and do so with less than 30% of your total equity.
- The urge for new traders to be "a millionaire" is very powerful. It can cause traders to deviate from their risk controls and even worse, their trading plan.
- More money breeds greed for even more money, build your equity steadily and slowly.
- You will need time for your psyche to become accustomed to the normal equity dips associated with proper equity growth.
- If you rush it and overtrade and or overleverage the account, you will be emotionally charged and you will find yourself "needing" the trades to end profitably versus following the plan and taking what the current market environment is presenting at the time.
- When a trade goes wrong you must always know when to fold on the trade and cut bait.